# MONTANA

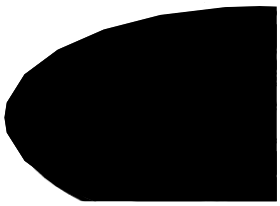
# DRINKING WATER STATE REVOLVING FUND

# ANNUAL REPORT

## FOR STATE FISCAL YEAR 2000
## (JULY 1, 1999 THROUGH JUNE 30, 2000)

**Prepared by**

**Montana Department of Environmental Quality**
**and**
**Department of Natural Resources and Conservation**



**for**
**EPA Region VIII**

**DECEMBER 2000**

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**MONTANA**
**DRINKING WATER STATE REVOLVING FUND (DWSRF)**
**ANNUAL REPORT**
**STATE FISCAL YEAR (SFY) 2000**

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## I. INTRODUCTION

This Annual report adheres to the Operating Agreement negotiated between the State of Montana and the Environmental Protection Agency (EPA) concerning the administration of the Drinking Water State Revolving Fund (DWSRF). The annual report summarizes DWSRF activities for the state fiscal period beginning July 1, 1999 and ending June 30, 2000 (SFY00).

The DWSRF program was established as a result of the 1996 Amendments to the Federal Safe Drinking Water Act which provided the authority for EPA to make capitalization grants to states. The grants, in conjunction with state matching funds, are used to provide financial assistance for the construction of drinking water projects and to support administration of the state program.

In anticipation of the 1996 Amendments to the Federal Act, the 1995 State Legislature, under Title 75, Chapter 6, Part 2, Montana Code Annotated, passed the enabling legislation, entitled the Safe Drinking Water Treatment Revolving Fund Act, giving authority to the Montana Department of Environmental Quality (DEQ) and the Department of Natural Resources and Conservation (DNRC) to adopt administrative rules to implement the program. Legislation also provided ability to generate state match funds, through the sale of state General Obligation Bonds (GO Bond Authority). Amendments to the Drinking Water State Revolving Fund Act were passed in the 1997 and 1999 Legislative Sessions. The 1997 amendments changed the title of the Act from "Safe Drinking Water Treatment Revolving Fund Act" to the "Drinking Water State Revolving Fund Act" and also made other changes consistent with the Federal Act. During the 1999 Legislative Session, the 1999 amendment clarified the transfer language between the DWSRF and Water Pollution Control State Revolving Fund (WPCSRF) Programs and added GO Bond Authority**.**

## II. EXECUTIVE SUMMARY SFY00

During SFY00 Montana applied for and was awarded its second and third capitalization grant in the amount of $7,121,300 for FFY98 and $7,463,800 in FFY99.

Since the inception of the DWSRF, Montana has issued two GO bonds and one Bond Anticipation Note (BAN). The proceeds of which have been used as state match for loans, set asides, and program administration. Montana issued its first GO bond in October 1998 (SFY99) and the second GO Bond in April 2000 (SFY00). The total amount of bonds issued to date is $6,055,000. A summary of these bond issues is provided in Exhibit 1. Montana is planning for its third GO Bond in calendar year 2001.

Exhibit 1, Sources of DWSRF Funds Through SFY00, provide a complete tabulation of capitalization grant awards received through June 30, 2000, projected state match, binding commitments for loan projects through SFY00, and GO bonds and BANs issued for state match. The combination of capitalization grants and bond proceeds provide the needed funds for DWSRF projects, set asides, and program administration during SFY00. In addition, DNRC

provided a portion of their program administration services as an in-kind contribution in the amount of $5,303.

During SFY00, the DWSRF program executed 14 project binding commitment agreements totaling $12,105,701, increased one current year binding commitment, and one prior year commitment. The three increases totaled $2,968,000 making our total commitment of funds $15,073,701. For a detailed breakdown of all DWSRF binding commitments signed and key dates of project activity that occurred in SFY00, refer to Exhibit 2: DWSRF SFY00 Binding Commitments Executed. See Exhibit 3 and 4 for the closed loans.

Detailed information concerning use of DWSRF funds, accomplishments of the program and adherence with the stated goals of the program are provided on the following pages.

## III. GOALS OF THE DWSRF

### *A. LONG-TERM GOALS*

1. To continue building and maintaining a permanent, self-sustaining state revolving fund program that will serve as a cost-effective, convenient source of financing for drinking water projects in Montana.

Projects funded during SFY00 met all program requirements governing financial capability to assume debt. Nine of fourteen communities received an interest rate of 4.0% on their loans (well below market rates) and five of the fourteen qualified for an interest rate of 3.0% under the disadvantaged community criteria. These factors illustrate that the assistance is affordable, refer to Exhibit 3 & 4. A copy of the cash flow with all the activity through SFY00 is included in the report as Appendix A.

2. To provide a financing and technical assistance program to help public water supplies achieve and maintain compliance with federal and state drinking water laws and standards for the protection and enhancement of Montana's public drinking water.

To promote the availability of these DWSRF program services during SFY00, DWSRF staff presented information at a variety of events. These included four infrastructure workshops, the annual Montana Rural Water Systems conference, the annual AWWA/WPCF conference, the annual Water School for Water and Wastewater Operators and Managers, as well as meeting one on one with community leaders.

Please also refer to the project descriptions and discussion of set-asides provided in Section V. Details of DWSRF Activity.

### *B. SHORT-TERM GOALS*

1. Continue implementation and maintain the Drinking Water State Revolving Fund Program in Montana.

Montana received approval of its DWSRF program and award of the FFY97 capitalization grant, June 30, 1998. Two additional capitalization grants were received during SFY00. These were the FFY98 Grant for $7,121,300 and the FFY99 Grant for $7,463,800.

2. Ensure the technical integrity of Drinking Water SRF projects through the review of planning, design plans and specifications, and construction activities.

The trained technical staff of the Planning, Prevention and Assistance Division (PPAD) continue to use the DWSRF Handbook of Procedures and knowledge gained from eight years of operating the WPCSRF Program to ensure that this objective is met. The Handbook of Procedures is used as a guide to ensure that all state and federal laws governing the technical aspects of each project are satisfied.

Steps are being taken to update the Handbook of Procedures to streamline checklists and processes. This project is planned to occur during this next year utilizing the recommendations from EPA's annual review of the program. Other suggested improvements by program staff that have been noted during application to actual projects.

Staff attends training seminars and workshops to maintain and improve technical, financial and programmatic knowledge. In SFY00, Anna Miller and John Tubbs attended the Council of Infrastructure Financing Authorities (CIFA) National Workshop; Anna Miller, John Tubbs, Jeff Lustgraaf, Diana Hoy, Marc Golz, Gary Wiens, Terry Campbell and Bob Fischer attended the DWSRF All States Workshop; Anna Miller attended the CIFA Legislative Conference; and Bob Fischer attended the annual Joint Engineers' Conference.

3. Ensure the financial integrity of the Drinking Water SRF program through the review of the financial impacts of the set-asides and disadvantaged subsidies and individual loan applications and the ability for repayment.

See Appendix A: Cash Flow Model SFY00.

4. Ensure compliance with all pertinent federal, state, and local safe drinking water rules and regulations.

To the best of our knowledge, the DWSRF program has ensured PWSS compliance through the projects that have been funded and the various set-aside activities. Close coordination with the PWSS program has been essential in this effort.

5. Obtain maximum capitalization of the funds for the state in the shortest time possible while taking advantage of the provisions for disadvantaged communities and supporting the set-aside activities not directly related to the loan portfolio.

Since the approval of its DWSRF loan program and first capitalization grant award, Montana has been awarded two more capitalization grants, utilized the provision to transfer funds between the WPCSRF and DWSRF, and generated other revenue from loan repayments and interest investments. The loan fund now totals over $31,887,000.

## IV. FINANCIAL REPORTS

The Montana Legislative Audit Division (LAD) has completed their audit work of the SFY99

financial statements and presented their audit report to the Legislative Audit Committee (LAC) in November 2000. A copy of the report has been submitted to EPA Region VIII.

DEQ and DNRC engaged LAD to audit the State Revolving Fund financial activity beginning in SFY98. This decision was based on a new audit requirement conveyed in a directive from the Office of Water, Inspector General's Office, and the Office of Management and Budget. Prior to SFY98, LAD performed an annual review.

A copy of the SFY00 unaudited financial statements, including footnotes is attached as Appendix B of this report. The LAD has completed their audit of the SFY99 DWSRF activity. The SFY00 audit should be complete by June 2001.

## V. DETAILS OF DWSRF ACTIVITY

### *A. LOAN ASSISTANCE*

During SFY00 the DWSRF program closed fourteen loans; signed fourteen project binding commitment agreements; and increased three binding commitments.

**Project Bypass**

If it is determined by DEQ that a project or projects are not ready to proceed or that the project sponsors have chosen not to use the Drinking Water SRF funds, other projects may be funded in an order different from that indicated on the priority list. If DEQ chooses to bypass higher ranked projects, it should follow the bypass procedure.

Montana bypassed 99 projects on its Priority List with the funding of Plentywood, ranked 113. Thirteen other loans were closed. Refer to Exhibit 3: DWSRF Capitalized Grant Closed Loans For SFY00 and Exhibit 4: DWSRF Recycled Closed Loans For SFY00. The notification included the proposed projects to be funded, and the assurance that funds were still available for all loan applications anticipated at that time. All communities on the Priority List were notified in accordance with the above procedures, and no responses were received. No emergency projects were funded in SFY00.

**Disadvantaged Communities**

Communities seeking a Drinking Water SRF loan that meet the disadvantaged community criterion described in the Intended Use Plan may receive an additional subsidy on their SRF loans, beyond the standard below-market rate financing. This includes communities that will meet the disadvantaged criterion based on projected rates as a result of the project.

In SFY00, Montana closed five loans at a 3% interest rate, for a total of $5,022,000, with communities that satisfied the disadvantaged criteria.

**Small Systems**

The table below shows the breakdown of the population served by our loans in FY00. We have 14 loans for a total of $24.418,000. Thirteen of these loans are with small systems that serve a population of less than 10,000 for a total of $16,017,000. This represents 66% of the loans made in FY00.

| Public Water Supply | Population | Loan Amount |
|---|---|---|
| 1. Boulder | 1,654 | $ 1,294,000 |
| 2. Broadview | 187 | 203,000 |
| 3. Brockton | 360 | 45,000 |
| 4. Columbia Falls | 4,205 | 907,000 |
| 5. Cut Bank Phase I | 3,456 | 283,000 |
| 6. East Helena Phase II | 1,750 | 3,234,000 |
| 7. Elk Meadows | 150 | 200,000 |
| 8. Glendive | 4,421 | 1,829,000 |
| 9. Havre Phase II | 10,015 | 8,401,000 |
| 10. Philipsburg | 900 | 200,000 |
| 11. Plentywood | 971 | 577,000 |
| 12. Seeley Lake | 1,953 | 1,340,000 |
| 13. Virginia City | 160 | 66,000 |
| 14. Whitefish Phase II | 5,875 | 5,839,000 |
| **TOTAL** | | **$ 24,418,000** |

## Projects Provided Funding

Following is a brief summary of the projects which began or continued activity during SFY00:

**The Town of Boulder loan** funded the construction of improvements to the community's water distribution and storage systems. Distribution system improvements consisted of the replacement of 80% of the system's deteriorated and undersized lines facilitating pressure and supply increases. Storage system improvements included the installation of wellhead meters and pump controls, thereby improving the economy and efficiency of the system.

Begun in the spring of 2000, work was substantially completed in October, 2000. The initial loan amount is $1,294,000.

**The Town of Broadview** loan refinanced debt incurred by the town in 1995 to construct needed improvements to the water system. The improvements consisted of the replacement of a large portion of the distribution system and the addition of a water source achieved by drilling a new well. State recycled funds in the amount of $203,000 were used to refinance the town's water system debt in February 2000.

**The Town of Brockton loan** financed the construction of a buried concrete storage reservoir and the replacement of the community's leaking and undersized distribution system, including valves and fire hydrants. The project was substantially completed early in 2000; the loan, however, has not been closed out and is being used for cleanup activities including pavement repairs necessitated by the project. A minor labor dispute ($3,000) between the general contractor for the distribution system improvements and an employee has also prevented the project from being closed out. The total loan amount, $45,000, was to have been used for construction activities.

**The City of Columbia Falls loan** was used to refinance work constructed in 1994. In 1993, the existing water system for the City of Columbia Falls consisted of a surface water source and one well, with chlorination as the only method of treatment. The project refinanced by this loan consisted of the construction of a new well and the abandonment of the surface water source. To facilitate the abandonment of the surface water storage reservoir, it was necessary to also construct a new 1.0 million-gallon above grade concrete storage reservoir. Work also included transmission lines, associated valves and appurtenances necessary to incorporate the new well and storage tank with the existing facilities.

**The City of Cut Bank Phase I Engineering loan** funded the design of a surface water treatment plant intake adjacent to the city's water treatment plant in Cut Bank Creek, improvements to the existing water treatment plant including flash mix, new flocculators, new sludge removal system and new booster pump station improvements. The engineering loan is $293,000. Construction will begin in November 2000 and is expected to continue into the summer of 2001. The construction loan has not been closed. This project will help Montana meet its intended use plan goals of ensuring the technical integrity of the project and funding a project that addresses public health protection through compliance with the surface water treatment rule. Historically, Cut Bank has had difficulty meeting turbidity requirements and has been placed on Health Advisories and Boil Orders intermittently over the past couple of years.

**The City of East Helena Phase II construction loan** funded the construction of 16,400 feet of new transmission pipe to replace a deteriorating asbestos-cement pipeline, a new telemetry system to improve reliability and efficiency, a new storage reservoir and roof repairs on the existing concrete reservoir. Water meters were installed on all water services and approximately 18,000 feet of new distribution mains were constructed to loop existing dead-end mains and upsize existing mains. The engineering loan was $228,000 and the construction loan is anticipated to be $3,234,000. Construction began in June 1999 and completion of the final item, the reservoir roof repair, is expected in spring 2001. This project helps Montana meet its intended use plan goals of ensuring the technical integrity of the project and funding a project that addresses public health protection through compliance with the asbestos maximum contaminant level set in the Phase II rule.

**The Elk Meadows Ranchettes engineering and construction loan** funded water system improvements to increase the storage capacity of the water system. The improvements consisted of a new glass-lined storage reservoir and appurtenant piping modifications. The total loan amount is $200,000. Construction will begin in FY 2001 and be completed in October 2000. This project helps Montana meet its intended use plan goals of ensuring the technical integrity of the project and funding a project that addresses public health protection by maintaining an adequate stored quantity of water at acceptable pressures.

**The City of Glendive loan** funded the design and construction of a new river intake on the Yellowstone River and a new clearwell for the surface water treatment plant. The authorized loan amount is $1,829,000. Final engineering plans and specifications were reviewed and approved by DEQ in April 1999. Construction of the project has been completed, but the city is waiting for resolution of some issues, between the prime contractor and subcontractors, before requesting a final disbursement. This project will help Montana meet its intended use plan goals by ensuring the technical integrity of the project and funding a project that addresses public health protection through compliance with the surface water treatment rule.

**The City of Havre phase II loan** is to provide funding to expand the city's existing 4.5 million-gallon per day (mgd) surface water treatment plant to 6.0 mgd. The project is needed to correct

deficiencies in the sedimentation and disinfection capabilities of the plant. New treatment processes will be added and several existing processes will be upgraded. New treatment processes include: an inlet structure and raw water wetwell, flash mix, flocculation and sedimentation basins, dual media filtration, and chemical storage and chemical feed facilities. The following existing facilities will be upgraded: two filters, filter waste wash water treatment and electrical and instrumentation systems. The loan of $8,401,000 was closed June 1, 2000. Construction is ongoing and final completion is scheduled for January 31, 2002. This project will help Montana meet its intended use plan goals by ensuring the technical integrity of the project and funding a project that addresses public health protection through compliance with the surface water treatment rule.

**The Town of Philipsburg loan** was used to finance the drilling and completion of a water well in December of 1999. The purpose of the well is to provide a source of groundwater to blend with surface water from a mountain lake five miles to the east in an effort to reduce corrosivity and eliminate the system's non-compliance with the federal lead and copper rule. Another benefit of the well is to provide a supplementary source of water should the transmission line from the lake fail. The well produces about 75% of its estimated and required quantity of water, and the community continues to evaluate options for additional water to blend with the system.

The total loan amount is $200,000, to be used for the development of a water source and the construction of a transmission main to connect the new source to the system.

**The Town of Plentywood** water treatment facility initiated construction after July 1, 1993 and was completed November 1997. The project consisted of construction of a new 1000 gpm water treatment facility for the Town of Plentywood. The loan for this project was a refinance of existing bonds supported by the water system user fees. The total loan amount was $577,000, and the entire loan amount was disbursed September 1, 1999. This project will help Montana meet its intended use plan goals by improving public health issues.

**The Seeley Lake Water District loan** refinanced the construction of a new packaged rapid rate surface water treatment plant, raw water intake and approximately one mile of associated distribution water main installation. The construction loan was for $1,340,000. Construction was primarily completed on this project in the Summer of 1999 with the exception of a couple of punch list items. Those items were completed by Spring of 2000. The construction loan has been closed. This project helps Montana meet its intended use plan goals by refinancing a project that addresses public health protection through compliance with the surface water treatment rule. Historically, Seeley Lake has been a Significant Non Complier with respect to the Surface Water Treatment Rule since the early 1990's and has been under a DEQ administrative order since 1994. Upon completion of the new facility, the administrative order was closed out.

**The Virginia City loan** partially funded construction of a new storage tank and transmission main to serve the City of Virginia City. The plans and specifications for the project were reviewed and approved by DEQ in March 1999. The loan was closed in August 1999, in the amount of $66,000. This project helped Montana meet the intended use plan goals by providing funding to a very small community for the purpose of improving substandard elements of the drinking water system. The project replaced an aging, leaking and substandard wooden water tank with a bolted steel tank and provided a new transmission main to attach the tank to the existing water system.

**The City of Whitefish Phase II construction loan** funds the construction of a surface water

treatment plant adjacent to the city's Haskill Reservoir, a raw water intake and pump station on the shore of Whitefish Lake, and a transmission pipeline to deliver untreated water from the lake to the plant. The engineering loan was $400,000 and the construction loan is anticipated to be $5,839,000. Construction began in August 1999 and is expected to be completed early in 2001. This project will help Montana meet its intended use plan goals of ensuring the technical integrity of the project and funding a project that addresses public health protection through compliance with the surface water treatment rule.

A tabulation of aggregate information can be found in Exhibit 5, History of DWSRF Binding Commitments. This table tabulates the quarterly federal payments, totals quarterly SRF binding commitments and cumulative binding commitments, and calculates Montana's achievement of its 100% binding commitment grant condition. This fiscal year, the DWSRF maintained steady performance by executing fourteen project commitment agreements. The DWSRF completed SFY00 with binding commitments totaling 260.68% based on grant payments received four quarters earlier. We project in SFY01 that we will execute in excess of $11,235,000 in binding commitments. See Exhibit 6: DWSRF Projected Binding Commitments SFY01.

### *B. FIRST-ROUND FUNDED LOANS:*

First-Round loans are financed with capitalization grants and state match. The DWSRF has financed the projects listed in Exhibit 3: DWSRF Capitalized Grant Closed Loans For SFY00.

### *C. RECYCLED FUNDED LOANS:*

Recycled loans are financed with loan repayments from first round money and funds from transfers from the WPCSRF program the projects listed in Exhibit 4: Recycled Closed Loans For SFY00.

### *D. SOURCE OF FUNDS:*

Two sources of funds are used to capitalize the DWSRF: (1) the Federal Capitalization Grant, which provides 80% of the DWSRF loan funds; and (2) the state match, funded through the sale of GO bonds, which provides 20% of the DWSRF loan funds. State legislation originally authorized the sale of up to $10 million in GO bonds to match federal grant funds. In the 1999 Legislative session an additional $10 million of GO bonds was authorized for state match bringing the total to $20 million. This amount is adequate to cover funds currently authorized for the program. At the time this report was written, $6,055,000 of GO bonds have been issued by the DWSRF program to use as state matching funds. See Exhibit 1: Sources of DWSRF Funds Through SFY00. In-kind services of $5,303 have been provided to the DWSRF program by DNRC as match to federal grant funds and were used for program administration. Also, $4.7 million of funds have been transferred from the WPCSRF to the DWSRF for loans.

### *E. FEDERAL FUNDS DRAWN BY THE PROGRAM:*

Exhibit 7, SFY00 Summary of DWSRF Federal LOC-ACH Draws shows thirty-four loan disbursement requests for $7,844,914, nine administrative set-aside disbursement requests for $280,153 and twelve non-administrative set-aside disbursement requests for $422,271 were made for a total of $8,547,338 drawn on the Federal Letter of Credit, Automatic Clearing House (LOC-ACH) during SFY00.

Exhibit 8, DWSRF Projected VS. Actual Federal LOC Cash Draws summarizes the federal payment schedule, the projected third quarter disbursement estimates and the actual draws

upon the LOC-ACH showing the variance between Montana's projected and actual draws during SFY00.

## SET – ASIDES

DWSRF Budget and Draws by Set-Asides displays the financial summary of these non-project activities, see Exhibit 9.

### *ADMINISTRATION*

The DWSRF set aside the maximum four percent from the capitalization grants for program administration. DEQ's contract with DNRC and other activities that occurred were:

- review and assistance during planning, design, project bidding and construction.
- loan origination work, administering repayments.
- preparation of bond issuance with state's bond counsel firm of Dorsey & Whitney.
- financial modeling.
- DWSRF program audit.
- costs associated with the legislatively appointed advisory committee.
- public comment processes.

### *SMALL SYSTEMS TECHNICAL ASSISTANCE SET-ASIDE*

DEQ developed a Work Plan for a small systems technical assistance set-aside during the spring and summer of 1998. The Work Plan was submitted to EPA on September 1, 1998 and approved on November 12, 1998. As outlined in the Work Plan, DEQ developed a RFP to provide the technical assistance via a contractor. The DEQ received proposals from 8 different contractors.

The successful contractor, Midwest Assistance Program, was notified of acceptance of the firm's proposal. This contract has now been in place for over 12 months and is working very successfully. As of June 30, 2000 technical assistance visits have been performed at 88 systems with 9 of those sites requesting follow-up site visits. The technical assistance provider has provided assistance ranging from identifying physical problems with the water system equipment to providing a written guide for a record keeping system to assisting communities without certified operators acquire and train staff.

An evaluation of the contract was performed by DEQ DWSRF staff in June, 2000 to determine if the contract should be continued. Fourteen systems selected at random were contacted by phone to evaluate the performance of the contractor. All of the systems contacted were positive about the service provided and several said they benefited and would not hesitate to call on the contractor again. Following are examples of the service being provided under this contract:

- helping operators to identify and prioritize water system needs
- helping operators to address the identified needs
- helping operators in discussions with boards, councils and other administrators when necessary
- helping operators & owners identify and isolate leakage problems resulting in pressure losses
- helping operators to operate and calibrate water treatment analytical and chemical feed

equipment
- helping operators to repair malfunctioning analytical or chemical feed equipment
- explaining disinfection practices
- briefly discussing capacity development, cross-connections, source water protection, water conservation and operator certification requirements and providing the operator with a list of people or organizations to contact for in-depth information on these subjects

The contractor is also available to provide targeted technical assistance when the need arises. This service has been provided twice over the period from 7/1/99 to 6/30/00. As an example the contractor filled in at a surface water treatment plant when an operator quit his job without having a back-up to continue to adequately run the facility. The result of the assistance in each of these two cases was to return the systems back into compliance with drinking water standards, thus ending Boil Water Orders. This contract allows DEQ to request that the contractor not only help make the initial adjustments, but also provide the operator with the necessary information to properly operate and maintain the equipment on his own.

### *PWSS Set-Aside (administration)*

This set-aside will initially be used to complete sanitary surveys of public water supplies through contracted services. The Public Water Supply Section (PWSS) is behind schedule for completion of surveys. Because of limited staff resources, contracted services will continue to be necessary to return water suppliers to compliance for this important regulatory requirement.

A contract with a consultant for sanitary surveys expired on June 30, 1999. It used other non-SRF income. A new contractor began work in the spring of 2000. Approximately $100,000 from this set-aside will be used during the first year of the new contract.

A final workplan has been approved by EPA.

### *PWSS Set-Aside: Source Water Protection*

Two contracts have been implemented to collect source water information, and to make this information available to DEQ staff and the public. This information will be used in source water assessment and delineation activities as required by the SDWA, in making future DEQ permitting decisions, and in review of applications for public water supply monitoring waivers.

*Bureau of Mines and Geology*
A contract with the Montana Bureau of Mines and Geology (MBMG) in Butte will provide the following information: 1. Search the Groundwater Information Center (GWIC) database developed by MBMG to correlate well logs with existing public water supply sources, provide copies of well logs to the PWSS, correlate GWIC well log identification numbers with the public water supply source identification number to provide a link between GWIC and the PWSS database; 2. Enter existing well log information into GWIC to provide a more complete listing of groundwater wells and aquifer information; 3. Sample vulnerable wells identified by the PWSS for parameters that may provide more information regarding source susceptibility, and; 4. Collect latitude/longitude information for existing PWS sources.

Well logs that may serve public water supplies that are currently in GWIC have been identified and reported to the PWSS. Additionally, correlations between wells in GWIC and in the PWSS database have been made for Missoula County. This effort will continue in other counties. Recent well logs for 3,000 private and public wells have been entered in to GWIC. Older well

logs have been retrieved from historical DEQ files and have been sent to MBMG so they can also be entered into GWIC. Sampling of vulnerable wells has begun in Mineral, Ravalli, Missoula and Cascade Counties. Latitude and longitude locations will be collected by a variety of field and office methods, and the method used will be recorded for future reference.

*Montana State Library/Natural Resource Information System (NRIS)*
A contract with NRIS was implemented to augment the MBMG contract. This contract initially was intended to provide the following information: 1. Compare latitude/longitude locations obtained from address-matching efforts to locations obtained from global positioning system (GPS) readings; 2. Create a geographical information system (GIS) database layer of public water supply sources using existing latitude/longitude information, and; 3. Train PWS Section staff in the use of Arcview, Arcexplorer and other NRIS Internet interactive mapping applications.

Address matching was determined to be ineffective as a means of identifying source locations. In response to these findings, an alternate effort was initiated. It was determined that NRIS would work together with the PWS Section and Source Water Protection Section to develop a Source Water Protection "portal". This portal will provide an Internet site for DEQ staff, public water suppliers, and the general public to access layers of information relevant to source water assessment and delineation activities. GIS layers of existing information such as wells, aquifers, geology, land use, population density, incorporated city limits etc. will be accessible through this site for any location in the state. Consultants will have access to this information in their efforts to collect source water information for existing and proposed public water sources.

An ultimate goal of the PWS Section is to develop a complete database that will be useful in source water protection efforts, and that will be accessible via the Internet. These contracts will provide much needed information in the current database.

### *CAPACITY DEVELOPMENT SET-ASIDE*

One prong of the capacity development set-aside is the provision of financial and managerial technical assistance to small systems. The state of Montana has over 1900 public water supplies. Given this large number of systems and a shortage of staff with the requisite financial and managerial experience, the DEQ has chosen to provide these services through a contractor supervised by DEQ staff. The DEQ prepared a request for proposals that had a deadline for submittal in August 2000. Five organizations submitted proposals.

The goals of the financial and managerial assistance contract are to:

- help systems meet the capacity development requirements of the 1996 amendments to the Safe Drinking Water Act, and
- enhance public health protection, drinking water quality, compliance with the Safe Drinking Water Act and the management of drinking water supply systems through improvements in financial and managerial capabilities.

Upon startup of the contract, the DEQ expects the contractor to provide assistance targeted toward water system operators and managers with financial and managerial deficiencies. The services will include:

- periodic meetings, probably bimonthly, with state and federal regulatory and funding agencies to coordinate assistance efforts for public water systems,

- development of techniques for providing assistance to the assigned systems, using methods tailored to the needs of systems with financial or managerial deficiencies,
- performance of site visits, as necessary to provide financial or managerial assistance to systems,
- preparation and submittal to MDEQ of a written report for each site visit, and
- recommendations to the owner, operator or manager for improvements in financial or managerial practices.

The financial and managerial assistance contract will serve as the primary assistance tool for addressing financial and managerial aspects of capacity development. It is anticipated the contractor will provide in-depth financial and managerial assistance to a minimum of 25 public water supplies under the initial contract.

### *PWSS Set-Aside: Operator Certification*

This set-aside has been used for personal services and operating expenses for staff in the Operator Certification Program. The program has hired a new full-time certification technician and now has three full-time staff. Set-aside funds are used to pay portions of the salary and benefits for all three positions, as well as program operating expenses.

In the past year, the program has certified over 1300 public water system operators, including operators for 638 community systems and 232 non-transient noncommunity systems. Certification program activities include public outreach, collection and processing of applications, collection and processing of examination and certification fees, training, administration of exams, monitoring of continuing education credits, compliance monitoring, and assistance with formal enforcement activities. Over 90% of the public water supply systems in each category have certified operators.

The Certification Program Manager plans to send draft program to EPA Region VIII and Headquarters in October to request approval of our Operator Certification Program. Positive feedback for the program has been received from both EPA Region VIII and Headquarters, and the program has been formally approved.

The department will be requesting approval for spending authority from the 2001 state legislature for very small water system expense reimbursement grant funding if that grant money should be obtained from EPA. The department is also requesting another full-time operator certification staff person to administer this program if approval is obtained.

CD-ROM Interactive Training Video
The Montana State University Water Center contracted with the DEQ for $35,000 to develop an interactive CD-ROM training videos The subject matter was to include: 1. source water assessment and delineation procedures, and; 2. construction, operation and maintenance of groundwater systems. Operators could use the videos to obtain training and credit for continuing education. Unfortunately, total project funding was apparently not adequate, and the Water Center expended the entire $35,000 on the source water protection video. No agreement has been reached regarding further work on the groundwater system training video. The source water protection video has been distributed to a wide audience for review, and comments are still being received by the Water Center. There have only been two requests in the past year for continuing education credits from certified operators for completion of this video.

### *Local Assistance and Other State Programs – Source Water Delineation and Assessment*

Montana used funds from this set-aside for delineation and assessment. The Montana SWPP was submitted to EPA in January 1999, following an extensive development process that included advisory council input as well as consideration of comments received through public meetings held around the state and an Internet based enhanced public participation project. EPA approved the program in November 1999.

The Montana SWPP uses a combination of approaches to complete the assessments. For many
source waters, state staff resources will complete the source water delineation and assessment reports. For sources serving qualified community water systems, a pass through grant option is in place to allow a public water system (PWS) to complete the delineation and assessment report either directly, where in-house expertise exists, or through a contractor of their choice. The latter is a delegation mechanism intended to help develop local ownership of the effort as well as to help complete the reports by the statutory deadline. The process by which this delegation will occur and the criteria by which eligible communities will be selected is more fully described in the Montana SWPP document.

A web-based *Source Water Protection Program Query Tool* was put on-line during the reporting period. This tool allows the user to identify and map selected contaminant sources within a specified distance of public water supply systems. The tool is intended to facilitate program implementation by DEQ staff as well as implementation by others through the pass through grant option.

## VI. GRANT CONDITIONS AND CERTIFICATIONS

The State of Montana agreed to the following conditions outlined in the Operating Agreement. These items are discussed in more detail throughout the body of this report. To the best of our knowledge, DEQ and DNRC have abided by all requirements of state and federal law in the administration of this program.

(a) Assurance that the State has the authority to establish a Fund and operate the DWSRF program in accordance with SDWA.

The State of Montana's authority was re-certified and included with our applications for the FFY98 and FFY99 capitalization grants.

(b) Assurance that the State will comply with State Statutes and regulations.

(c) Assurance that the State has the technical capability to operate the program.

(d) Assurance that the State will accept capitalization grant funds in accordance with a payment schedule.

Please see Exhibit 8: DWSRF Projected vs. Actual Federal LOC-ACH Draws.

(e) Assurance that the State will deposit all capitalization grant funds in the Fund or Set-Aside Account.

(f) Assurance that the State will provide an amount equal to at least 20 percent of the capitalization grant (State match) in the Fund.

(g) Assurance that the State will deposit net bond proceeds, interest earnings, and repayments into the Fund.

(h) Assurance that the State will match capitalization grant funds the State uses for 1452(g)(2) set -asides.

(i) Assurance that the State will use Generally Accepted Accounting Principles.

(j) Assurance that the State will have the Fund and set-aside account audited annually in accordance with Generally Accepted Government Auditing Standards.

Please see Appendix B

(k) Assurance that the State will adopt policies and procedures to assure that borrowers have a dedicated source of revenue for repayments (or in the case of privately owned system, demonstrate that there is adequate security).

(l) Assurance that the State will commit and expend funds as efficiently as possible, and in an expeditious and timely manner.

(m) Assurance that funds will be used in accordance with the Intended Use Plan.

(n) Assurance that the State will provide EPA with an Annual Report.

The submission of this document will fulfill the State of Montana's responsibility to submit a report.

(o) Assurance the State will comply with all Federal cross-cutting authorities.

(p) The state agrees that it will conduct an environmental review and a determination will be executed and distributed using a state process consisting of the same level of environmental detail required under the state Environmental Review Process for the Drinking Water SRF Program.

All construction projects that received assistance during SFY00 were reviewed and approved using the Montana Environmental Policy Act (MEPA). It was determined that no Environmental Impact Statements were necessary. An Environmental Assessment was prepared and a Finding of No Significant Impact was issued for all projects.

(q) The use of set-asides for Administrative Expenses, Small Systems Technical Assistance, State Program Management (Public Water Supply Supervision, Source Water Protection, Capacity Development, and Operator Certification), and Local Assistance and Other State Programs (Source Water Delineation) will be identified each year in the IUP and established in accordance with the Drinking Water SRF Program Guidelines.

(r) Specific Requirements under Title XIV

1. In accordance with Section 1420(a) of the Safe Drinking Water Act, the state has the authority to ensure that all new community water systems and new nontransient, noncommunity water systems commencing operation after October 1, 1999, can demonstrate technical, managerial, and financial capability with respect to each national primary drinking water regulation in effect.

   EPA has reviewed and approved Montana's capacity development authority and strategies. Administrative Rules that implement Montana's strategies became effective on September 10, 1999.

2. The state currently has a water and wastewater treatment plant operators certification program within the Permitting and Compliance Division, Department of Environmental Quality.

In addition, the following conditions were given with the Capitalization Grant Award. To the best of our knowledge, DEQ and DNRC have abided by these requirements as well.

- The recipient agrees to ensure that all space for conferences, meetings, conventions, or training funded in whole or in part with Federal funds complies with the Hotel and Motel Fire and Safety Act of 1990.

- EPA Order 1000.25 Recycled Paper – DEQ is using recycled paper for printing reports to be delivered to EPA.

Minority Business Enterprises/Women Business Enterprises (MBE/WBE) Utilization Under Federal Grants – During SFY00 loan recipients were required to comply with all Federal requirements concerning Disadvantaged Business Enterprises (DBE) Utilization either by project specification or submitting appropriate reports during construction.

The state's fair share goal for DBE participation is 5% for SFY00 (2%MBE, 3% WBE). Refer to Exhibit 10 for the summary of the DWSRF Loans – MBE/WBE for contracts awarded during SFY00.

## VII. CURRENT STATUS AND FUTURE ACTIVITIES

The DWSRF continues to use the US Bank as its trustee to manage funds and accounts established under the program. To date this arrangement has been very beneficial. DNRC gained access by computer modem to US Bank accounts which has made monthly reconciliation of WPCSRF and DWSRF accounts more timely. D.A. Davidson and Co. and Piper Jaffray Inc. continue to act as the DWSRF bond underwriters and financial advisors. Dorsey & Whitney will continue to act as DWSRF bond counsel for the general obligation bonds issued in future fiscal years.

Also, DEQ will begin work on the development of a complete database, which ultimately will include links with the DWSRF, the PWSS program, and fiscal services in both DEQ and DNRC. The Planning Division has allocated up to .5 FTE for development of the WPCSRF and DWSRF databases. This person will coordinate database development and will serve as liaison between SRF program staff and DEQ's data processing staff. The target is to have the system fully operational by the start of the next state fiscal year, which also will facilitate federal reporting.

The following schedule indicates the key dates for continuation of the Drinking Water State Revolving Fund Loan Program in SFY01:

| SFY01 ESTIMATED KEY DATES | ACTIVITY |
|---|---|
| July 2000 | Held DWSRF bi-monthly meeting |
| September 2000 | Held DWSRF bi-monthly meeting |
| October 2000 | Held planning and financing workshops to promote and market DWSRF program |
| November 2000 | Held DWSRF bi-monthly meeting |
| January 2001 | Hold DWSRF bi-monthly meeting |
| Spring 2001 | Hold infrastructure financing workshops to promote and market DWSRF program |
| March 2001 | Hold DWSRF bi-monthly meeting |
| May 2001 | Hold DWSRF bi-monthly meeting |
| May 2001 | Region VIII all states meeting |

## VIII. GLOSSARY OF ACRONYMS AND INITIALIZATIONS

| | |
|---|---|
| **ACH** | Automatic Clearing House |
| **BAN** | Bond Anticipation Note |
| **CIFA** | Council of Infrastructure Financing Authorities |
| **DBE** | Disadvantaged Business Enterprises |
| **DEQ** | Montana Department of Environmental Quality |
| **DNRC** | Montana Department of Natural Resources and Conservation |
| **DWSRF** | Drinking Water State Revolving Fund |
| **EPA** | Environmental Protection Agency |
| **FFY** | Federal Fiscal Year (which begins October 1 and ends September 30) |
| **GAN** | Grant Anticipation Note |
| **GO** | General Obligation |
| **IUP** | Intended Use Plan |
| **LAC** | Legislative Audit Committee |
| **LAD** | Legislative Audit Division |
| **LOC** | Letter of Credit |
| **MBE** | Minority Business Enterprises |
| **MPDES** | Montana Pollution Discharge Elimination System |
| **NPS** | Nonpoint Source |
| **NMP** | National Municipal Policy |
| **PPAD** | Planning, Prevention and Assistance Division |
| **PPL** | Project Priority List |
| **RSID** | Rural Special Improvement District |
| **SFY** | State Fiscal Year (which begins July 1 and ends June 30) |
| **SID** | Special Improvement District |
| **SWP** | Source Water Protection |
| **TFAB** | Technical and Financial Assistance Bureau |
| **TSEP** | Treasure State Endowment Program |
| **USDA – RD** | United States Department of Agriculture, Rural Development |
| **$W_2$ASACT** | Water, Wastewater and Solid Waste Action Coordinating Team |
| **WBE** | Women Business Enterprises |
| **WPCSRF** | Water Pollution Control State Revolving Fund |